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BRIEFING PAPER

ECONOMIC/FINANCIAL SITUATION

Mexico's economic difficulties have forced the Government of Mexico to adopt strong economic adjustment measures. Following two years of economic growth in excess of 8%, Mexico experienced economic problems in 1982. Faced with a severe financial crisis, President de la Madrid, in December 1982, announced a stabilization program in keeping with the agreement Mexico had just reached with the International Monetary Fund. Mexico is receiving $3.9 billion from the IMF over a three year period. There is also $5 billion in new money provided by commercial banks in return for Mexico's compliance with the terms and conditions of the IMF agreement.

The GOM is committed to reduce the public sector deficit from 16 percent to 8.5 percent of GDP during 1983. Achievement of this objective will require a major effort to reduce public sector expenditure and increase revenues by eliminating or reducing subsidies to both the private and public sector, by restructuring taxes, and by a restrained wage policy. The GOM has eliminated currency controls, adopted a more realistic exchange rate and obtained an agreement on the restructuring of a portion of its more than $80 billion debt. The GOM has restructured an estimated $20 billion of principal on public sector debt maturing between August 1, 1982 and December 31, 1984. On June 22, official creditors signed a Paris Club rescheduling of Mexican private sector debt and agreed to provide $2 billion in new official export credits this year. These credits are in addition to the assistance package organized by the U.S. in August of 1982 which included pre-payment for oil deliveries to the Strategic Petroleum Reserve, commodity credits and a Bank for International Settlements (BIS) bridge loan. Mexico is also seeking an additional $500 million in commodity credits from the U.S. in FY-83.

In 1982, Mexico's current account deficit dropped to $3 billion from $13.9 billion in 1981. A further drop to $1.4 billion is projected for 1983. On the other hand, real GDP declined by 0.2 percent in 1982 and is expected to decline by 3 to 4 percent this year. Scarcity of foreign exchange, budget constraints, and reduced domestic demand will keep import levels down. Declining profits and difficulties in obtaining foreign exchange to pay for necessary imports have led Mexican industry to seek export opportunities abroad.

Mexico's economic difficulties have had a negative impact on U.S.-Mexican economic and trade relations. U.S. exports to Mexico declined drastically in 1982, falling by an unprecedented $6 billion or 34 percent. Projections for 1983 are for a further drop of $9.5 billion in U.S. exports to Mexico.

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In May 1983, the IMF announced that Mexico was in compliance with the IMF targets for the first quarter of the year and that, assuming continued favorable conditions, Mexico should be able to restore the stability of its economy. Whether Mexico will be able to meet its IMF commitments in the future remains an open question.

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